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BEFORE THE ARIZONA CORPORATION COMMISSION

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2007 DEC 19 P 2:00

AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
ARIZONA WATER COMPANY, AN ARIZONA
CORPORATION, FOR AUTHORITY TO
IMPLEMENT ARSENIC COST RECOVERY
MECHANISM FOR ITS CASA GRANDE
SYSTEM IN ITS WESTERN GROUP.

Docket No. W-01445A-04-0650

Arizona Corporation Commission

DOCKETED

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NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides its Audit Report of Arizona Water Company's November 14, 2007 filing for an Arsenic Cost Recovery Mechanism ("ACRM") Step 1 rate increase for its Western Group Casa Grande System.

RESPECTFULLY SUBMITTED this 19th day of December 2007.

Scott S. Wakefield
Chief Counsel

1 AN ORIGINAL AND THIRTEEN COPIES
2 of the foregoing filed this 19th day
3 of December 2007 with:

4 Docket Control
5 Arizona Corporation Commission
6 1200 West Washington
7 Phoenix, Arizona 85007

8 COPIES of the foregoing hand delivered/
9 mailed this 19th day of December 2007 to:

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By 
Ernestine Gamble

TO: Stephen Ahearn, Director
Scott Wakefield, Chief Counsel
Marylee Diaz Cortez, Chief of Accounting and Rates

FROM: William A. Rigsby

DATE: December 19, 2007

RE: Report on RUCO's audit of Arizona Water Company's November 14, 2007 filing for an Arsenic Cost Recovery Mechanism ("ACRM") Step 1 rate increase for its Western Group Casa Grande System.

AUDIT OBJECTIVE: The purpose and objective of this audit was to verify the capital expenditures of Arizona Water Company's ("Arizona Water" or "Company") recently completed arsenic removal facilities in the Company's Western Group Casa Grande System, to verify that the facilities are actually in service, to verify compliance with Decision Nos. 68310 and 66400 (which authorized the ACRM), and to verify the accuracy of the Company-requested ACRM surcharge. Arizona Water is seeking recovery of \$7,438,410 in capital expenditures related to the Company's Casa Grande system which provides service to customers living in and around the City of Casa Grande.

Arizona Water's application seeks cost recovery for amounts recorded under two Work Authorization ("WA") Numbers identified as WA #1-3765 and WA #1-3556. Costs for WA #1-3765 totaled \$4,978,845. The project consists of two separate treatment facilities. The first facility is located at Arizona Water's Well 19/Henness Road Site and removes arsenic from Company Wells 19, 21, 24 and 30. The second site, known as Mission Royale, removes arsenic from the Company's Well 29. Costs for WA #1-3556 totaled \$2,459,565. The project consists of a single treatment facility located at Arizona Water's Cottonwood Booster Station that removes arsenic from Wells 10, 14, 17, 23, 25 and 26.

AUDIT PROCEDURES: The following audit procedures were performed:

- 1) Verified that all schedules that are required by Decision No. 66400 are included in the application.

- 2) Reviewed Earnings Test for compliance, accuracy, and determined if the Company had passed the Earnings Test.
- 3) Reviewed all arsenic plant invoices, looking for such things as misallocations, unreasonable costs, non-arsenic plant costs, double billings etc.
- 4) Verified accuracy of individual Work Authorization Order totals and grand total.
- 5) Reviewed Revenue Requirement calculations for accuracy and compliance.
- 6) Reviewed rate design for compliance with 50/50 requirement, accuracy of calculations, and checked the reasonableness of the billing determinants by comparing to the prior rate case.
- 7) Traveled to Casa Grande and verified that the Company's arsenic removal facilities are actually in service.

AUDIT FINDINGS:

Unlike the Company's previous filing for its Northern Group Sedona and Rimrock Systems, none of the Casa Grande System facilities are leased. The arsenic recovery facilities serving Casa Grande are owned by Arizona Water.

The three arsenic removal facilities serving Casa Grande were in operation at the time of my visit on December 13, 2007. According to Arizona Water personnel, who provided me with a tour of the plant, the arsenic removal equipment was placed into service between September 2007 and the time of my visit.

The facilities serving Casa Grande use the coagulation/filtration method for removing arsenic from water that is pumped from the Company's wells.

Each of the three facilities serving Casa Grande were built on existing Arizona Water sites so the funds that the Company is seeking recovery for are associated

with the actual arsenic removal plant itself, as opposed to site preparation and peripheral type improvements that were a large part of the Company's prior Sedona/Rimrock filing.

The Company applied the 2.58 percent rate of depreciation that was ordered in Decision No. 66849.

RUCO has not found any discrepancies in the Company's ACRM Application.

AUDIT RECOMMENDATIONS:

The Company's ACRM request should be adopted by the Arizona Corporation Commission.